

# International Trade

July 28, 1981



United States Department of State  
Bureau of Public Affairs  
Washington, D.C.

U. S. DEPOSITORY DOCUMENT  
AUG 26 1981  
CONNECTICUT COLLEGE LIBRARY  
NEW LONDON, CT 06320

*Following is a statement by Secretary Haig before the Subcommittee on International Trade of the Senate Finance Committee on July 28, 1981.*

Let me thank you for this opportunity to discuss key elements of the Administration's approach to international trade and the part it plays in U.S. foreign policy. International economic developments are of central concern to the State Department and every Secretary of State must devote a great deal of time and attention to them. I am, therefore, particularly grateful for your invitation to testify on our international economic policy before this committee.

President Reagan has recognized that a strong American economy is the cornerstone of our national security. The strength we seek depends first and foremost on the success of the President's economic recovery program. A prosperous, well-functioning world trading system will make an important contribution to that success.

The Administration's approach to trade is shaped by the recognition that trade is an increasingly powerful source of innovation and growth for the American economy. We gain from access to the world's markets and the spur of international competition. Our producers and consumers benefit from access to foreign goods and raw materials. Trade clearly reinforces the President's domestic efforts to reduce inflation, to increase production, and to expand employment. In addition trade can contribute to mutually beneficial coopera-

tion among nations. Healthy trade relations can strengthen friendships and alliances and can help integrate countries into the market-oriented trading system which has served us so well.

## U.S. Trade Policy

Our current trade policy has its roots in historical experience. Following World War II the major industrial nations recognized that the bilateral arrangements and protectionist policies pursued by many nations during the inter-war period had done severe harm to their economies, played havoc with the international economy, and contributed to the frictions and tensions which ultimately led to the outbreak of war. The United States and its partners, therefore, set out to create a new trading system based on fair trading rules, on nondiscrimination among trading partners, and on the commitment to reduce trade barriers, especially high tariffs.

That system is embodied in the General Agreement on Tariffs and Trade (GATT). Despite its imperfections and departures from certain of its principles, this system has brought enormous benefits to virtually every nation in the world and served American interests well. The dramatic growth in trade since the war has strengthened our own economy and that of our trading partners. U.S. exports grew from \$10.8 billion in 1950 to \$221 billion in 1980. This has meant millions of jobs for

American farmers, workers, shippers, railroad workers, truckers, longshoremen, insurers, and bankers—all of whom have directly benefited. And, while we often face difficult problems with some of our developed-country trading partners, we would be considerably worse off if we had chosen a trading system based on more restrictive principles and rules. Such a system might well have brought prolonged economic weakness to our trading partners and, as a consequence, poor markets for our exports, economic instability in Europe, and reduced Western resources for defense. Inevitably, the United States would have had to bear a much larger defense burden.

Today, there are strains in the system. Competition among developed countries and with developing countries is more intense than it was years ago. And slower growth in many developed nations increases the difficulty of adjusting to rapid increases in imports. In the face of keener competition, many countries face enormous pressures to protect industries by restricting imports or supporting noncompetitive exports. They are tempted to work out bilateral trade arrangements which protect certain patterns of trade or limit trade. Investment practices are increasingly used as a means of forcing increased procurement or increased exports. Barriers exist in services, where the United States is very competitive. Certain countries that benefit greatly from the trading system have failed to open their markets adequately, even while they take advantage of open markets in other countries.

Unless we resolve these problems and distortions, they will severely weaken the international trading system. Efforts to strengthen our domestic economy will be complicated, the world economy will be disrupted, and international cooperation among both the developed and developing nations will be threatened.

The Ottawa summit [July 19–21, 1981] provided a fresh impetus to address the problems and distortions in international trade. But this momentum must be sustained by firm leadership, not just by one or two nations but by the industrial and developing nations together.

The United States will play its part. President Reagan has committed this Administration to the support of an open trading system on the basis of agreed rules. At the same time, we have asked for similar undertakings from other countries. We were, therefore, pleased that we and our partners at Ottawa agreed to "... reaffirm our strong

commitment to maintaining liberal trade policies and to the effective operation of an open multilateral trading system. . . ." and to "... work together to strengthen this system in the interest of all trading countries. . . ." The meeting of the members of the GATT at ministerial level during 1982 and the study of the trade problems of the 1980s by the Organization for Economic Cooperation and Development (OECD) provide excellent opportunities to reduce and remove key trade distortions. Close consultation among ministers of the United States, European Community, and Japan can contribute significantly to the success of both efforts, as they did to the achievements of the Tokyo Round. For the sake of our own economy—which will benefit from genuinely open world trade—and of the world economy, we and our trading partners must take advantage of these opportunities.

### Promoting U.S. Exports

Just as we will work toward maintaining and improving the world trading system to increase opportunities for U.S. exports and for mutually beneficial trade among all nations, so we will want to help our citizens to take advantage of these opportunities. Fundamental to our export prospects is a strong, competitive American economy. Without this, the best of intentions and the best of export programs cannot fully succeed. As the President's program brings down our rate of inflation and stimulates our productivity, it will permit our firms to improve their international competitiveness.

Such efforts need effective government support. The U.S. Trade Representative, Bill Brock, has conveyed to this committee the Administration's strong attempts to reduce self-imposed export disincentives and to improve U.S. export promotion programs. I fully support the work of Ambassador Brock and of Secretaries Baldrige and Block [Secretary of Commerce Malcolm Baldrige, Secretary of Agriculture John R. Block] to increase exports. In May I sent a cable to our ambassadors abroad asking them personally to take the lead at their posts and to deploy their entire country teams—not just economic and commercial officers—in this effort. And as a major part of this program, I have also emphasized to our ambassadors the importance I attach to increasing U.S.

agricultural exports. I expect them to play an enthusiastic role in supporting such exports.

The State Department also supports the very vigorous efforts being made by the Department of Commerce and the office of the U.S. Trade Representative to insure that other countries live up to the spirit and the letter of the Tokyo Round agreements. Other countries expect us to do the same. And you can be sure that our trade negotiators will bargain hard to reduce impediments to U.S. exports.

### Trade with Developing Countries

Let me now address the specific issues related to trade with the developing nations. Trade between the United States and the developing countries has grown rapidly over the last decade. U.S. exports to these countries have grown from \$10.8 billion in 1970 to \$82 billion in 1980. The developing countries taken together are now a larger export market for U.S. goods than Japan and the European Community combined, accounting for 37% of our exports. These countries have also become formidable competitors in our markets. Some have accepted multilateral trading rules; others have been reluctant to do so. Some have benefited enormously from an open trading system; others are so poor that they have very little to export.

Over the next decade, access of developing-country exports to developed-country markets is crucial for the growth that is fundamental to the economic and political stability of the developing world. For many of the developing countries, export earnings, combined with private investment, are far more important than official aid flows. And for the United States and other developed countries, open and flourishing markets in the developing world will be increasingly important to our own export performance and to the domestic economy.

Developed and developing countries will have to work more closely than ever in the GATT to address the problems of the trading system. We intend to maintain open markets for developing-country products, and we expect developing nations that have demonstrated international competitiveness to open their markets to our products. Together we need to insure access to our markets for the products of the poorer nations, to broaden developing-country participation in the GATT codes, and to address

the distortions—such as those imposed by investment performance requirements—to international trade. An open trading system, based on common adherence to agreed rules, is an objective shared by developed and developing countries. We must work, in the context of the GATT, to attain it.

More specifically, we have devoted considerable attention over recent months to the Caribbean Basin. We see a special need to work with countries of the region to promote the well-being of its people. We have begun careful and thorough discussions with Canada, Mexico, and Venezuela, along with other interested countries, about the best approach to promote economic progress. We have also begun intensive consultations with the Congress, from which we welcome advice and suggestions.

Our overall aim is to create an action program for regional development. It is too early to define the final form of the program. Much will depend on our consultations with other countries and the Congress. Trade liberalization, domestic and foreign investment, aid, and actions by the Caribbean countries to stimulate their own growth and development are all potential components.

### East-West Trade

The last area I would like to cover is East-West trade. Here the links between trade policy and foreign policy are clear. We are not dealing with free market forces, and we face many issues in which security and political principles must override commercial concerns. Our central objectives in this area are two-fold. First, our trade relations, and our broader economic relations, must reinforce our efforts to counter the Soviet Union's military buildup and its irresponsible conduct in a number of areas of the world. While clearly we have commercial interests which must and will be taken into account, security concerns must remain paramount. Second, we must strengthen cooperation among friends and allies in this area. We cannot carry out an effective East-West economic policy unilaterally. We must take into account the complex interrelationships that exist among our allies and OECD partners and among the individual countries of the Warsaw Pact.

Over the last several months we have carefully reviewed our policy on East-West trade in the context of overall East-West relations. We did so

because we wanted to be as precise and as clear as possible at the Ottawa summit about our concerns and about our proposals for addressing them. We did so not because we wished to impose any particular solutions on the countries represented there, but because we wanted to initiate a serious discussion of East-West trade relations at the highest level.

I would like to touch briefly on two major elements of our policy.

**Strategic Trade Controls.** The United States and its allies have maintained controls on the export of strategic goods and technology to the Soviet Union and Eastern Europe since 1949. Our objective has been to restrict the flow of advanced hardware and technology in order to preserve our technological edge and to inhibit and prevent advances in Soviet military capability.

On the basis of our policy review, we concluded that a tightening of restrictions on goods and technology which could upgrade Soviet production in areas relevant to Soviet military strength was both desirable and necessary. The President presented our general approach to the other leaders at Ottawa, not expecting their immediate agreement but stressing the importance he attaches to working with them to achieve tighter restrictions. We look forward to discussing our proposals, and the ideas of other COCOM [Coordinating Committee for East-West Trade Policy] countries, in coming weeks and months and, in particular, at a high level COCOM meeting this fall.

We recognize the strong possibility that several countries will differ on details and degree. Some have more extensive commercial links with the East than our own. Others believe that economic ties moderate political behavior. But while we may not always see eye to eye on specifics, I am encouraged by the recognition, embodied in the Ottawa communique, that we must "... ensure that, in the field of East-West relations, our economic policies continue to be compatible with our political and security objectives." And that we will "... consult to improve the present system of controls on trade in strategic goods and related technology with the USSR."

I also believe that any tightening of export controls must be accompanied by increased efforts to police these controls

and to improve the efficiency of our management. The Soviet Union and some of its Warsaw Pact partners are engaged in a major effort to obtain embargoed equipment and technology. We and our allies must improve our cooperative enforcement efforts. We have begun discussions with other COCOM countries toward this end.

We must also make decisions more quickly on requests by other countries to sell items currently on the COCOM list. Finally, we should seek, where possible, to relax restrictions on items at the very low end of the technology scale, the control of which penalizes our exporters rather than the Soviets.

**Foreign Policy Controls.** A second key area for enhanced cooperation is contingency planning—the need for the industrialized democracies to react clearly to Soviet adventurism and the use of force. The economic measures taken after the Soviet invasion of Afghanistan indicate that controls are more effective when implemented collectively and when the burden is not borne disproportionately by specific sectors or only a small group of countries. Coordination should take place in advance of a crisis. Much work has been done bilaterally and in NATO to anticipate and plan common approaches for contingencies. Discussions in Ottawa underlined a common interest in systematic and sustained exchanges on this subject.

These are two of the most important areas of East-West trade relations. We and our OECD partners have strong views on East-West trade relations because of our great concern over the Soviet Union. Over the last several years, there has been an awakening to the common dangers we face and a stronger dedication to deal with these dangers in a more integrated and effective way. Our objective is not to impose our views on our friends and allies but to make our case firmly and clearly on the basis of common interests with the aim of reaching agreement on a common approach.

### Conclusion

To conclude, please accept my thanks for the opportunity to participate in your hearings. I have come here today because of my conviction that our trade policy—which you and your colleagues

are so instrumental in shaping—has a major bearing on the health of our economy and on our country's place in the world.

An active and effective U.S. trade policy can strengthen our domestic economy and improve our political ties with developed and developing countries alike. An effective trade policy toward

the Soviet bloc countries can permit commercial exchanges in certain sectors while insuring that we and our major trading partners limit such exchanges where required by our security interests.

The Department of State and our ambassadors and officials abroad stand ready to play an active role in support of U.S. trade interests and to work closely with Ambassador Brock and Secretaries

Baldrige and Block to support their efforts. We will also pursue close and cooperative working relations with you in the Congress. ■

---

Published by the United States Department of State • Bureau of Public Affairs • Office of Public Communication • Editorial Division • Washington, D.C. • July 1981 • Editor: Colleen Sussman • This material is in the public domain and may be reproduced without permission; citation of this source would be appreciated.

---

Bureau of Public Affairs  
United States Department of State  
Washington, D.C. 20520

Official Business

If address is incorrect  
please indicate change.  
Do not cover or destroy ►  
this address label.

Postage and Fees Paid  
Department of State  
STA-501

Third Class Bulk Rate

